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STATE OF MONTANA

Report to the Legislature

DEPARTMENT OF HIGHWAYS

Report on Examination of Financial Statements
Fiscal Year Ended June 30, 1983



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STATE OF MONTANA

Report to the Legislature

DEPARTMENT OF HIGHWAYS

Report on Examination of Financial Statements
Fiscal Year Ended June 30, 1983

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

DEPARTMENT OF HIGHWAYS

STATE HIGHWAY COMMISSION

		<u>Term Expires</u>
Hert Hellebust, Chairman	Havre	1985
John Sullivan, Vice Chairman	Livingston	1985
Paul Foster	Billings	1985
Gerald Archambeault	Glasgow	1986
Roy Duff	Whitefish	1986

ADMINISTRATIVE OFFICIALS

Gary Wicks	Director Department of Highways
John Prebil	Deputy Director Department of Highways
William Salisbury	Administrator Centralized Services Division
Don Harriott	Administrator Engineering Division
Donald Gruel	Administrator Maintenance & Equipment Division
Donald Copley	Administrator Gross Vehicle Weight Division
James Beck	Administrator Legal Division
Russell McDonald	Administrator Personnel Division
Robert Champion	Administrator Program Development Division

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

	<u>Page</u>
<u>Recommendation #1</u>	
The department seek changes at the federal level to eliminate the necessity for the state to advance cash to federal programs.	3
Agency Reply: Concur. See page 42.	
<u>Recommendation #2</u>	
The department establish and repay inter-entity loans in accordance with state law.	4
Agency Reply: Concur. See page 42.	
<u>Recommendation #3</u>	
The department develop a policy to identify obsolete or slow moving inventory.	5
Agency Reply: Concur. See page 42.	
<u>Recommendation #4</u>	
The department develop maximum and minimum inventory control levels.	6
Agency Reply: Concur. See page 43.	
<u>Recommendation #5</u>	
The department:	
A. Follow its established inventory count procedures.	6
Agency Reply: Concur. See page 43.	
B. Consider performing the task on a rotating basis throughout the year.	6
Agency Reply: Concur. See page 43.	
C. Establish adequate physical controls over inventory stock on hand.	6
Agency Reply: Concur. See page 43.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
<u>Recommendation #6</u> The department properly record bond sale proceeds.	7
Agency Reply: Concur. See page 43.	
<u>Recommendation #7</u> The department:	
A. Report all costs in the Internal Service Fund in accordance with state accounting policy.	8
Agency Reply: Do not occur. See page 44.	
B. Study the feasibility of reclassifying the equipment bureau as a Special Revenue Fund.	8
Agency Reply: Concur. See page 44.	
<u>Recommendation #8</u> The department properly record earned investment income at fiscal year-end.	9
Agency Reply: Concur. See page 44.	
<u>Recommendation #9</u> The department establish and implement procedures to ensure errors in the accounts receivable records are detected and balances are properly reflected.	12
Agency Reply: Concur. See page 44.	

INTRODUCTION

We performed a financial compliance audit of the Montana Department of Highways for the fiscal year ended June 30, 1983. The objectives of the audit were to: (1) determine if the financial statements present fairly the financial position and results of operations of the department for the fiscal year ended June 30, 1983; (2) determine department compliance with applicable laws and regulations which could have a significant effect on the financial statements; and (3) make recommendations for improvements in the management and internal accounting controls of the department.

This report contains 9 recommendations to the department. These recommendations address areas where management, internal control, and compliance with laws and regulations can be improved. Other areas of concern deemed not to have a significant effect on the successful operations of the department programs are not specifically included in the report, but have been discussed with management.

In our opinion, the Department of Highways complied with significant laws and regulations for the transactions tested that could have materially affected the department's financial statements. Nothing came to our attention in connection with our examination that caused us to believe the department was not in compliance with laws and regulations for those transactions not tested.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the director and the department staff for their cooperation and assistance during the audit.

GENERAL

The department is responsible for the planning, layout, construction, improvement, repair, and maintenance of state highways and federal aid system highways. The director of the Department of Highways is appointed by the Governor and serves as

department head. The State Highway Commission is a five-member commission appointed by the governor. The commission is responsible for the designation of federal aid highways, primary highways, and off-system highways in the state maintenance system. The commission may delegate certain functions to the director of the Department of Highways.

The department's activities are organized under the seven divisions listed below, each headed by an administrator:

1. Centralized Services
2. Personnel
3. Legal
4. Engineering
5. Program Development
6. Maintenance and Equipment
7. Gross Vehicle Weight

The department also maintains the following four units, each headed by a manager who reports directly to the director:

1. Information
2. Audit
3. Aircraft
4. Civil Rights

Effective September 7, 1982, the eleven Department of Highway field divisions were consolidated into five districts for the purpose of administration of department operations. The five district headquarters are located at Missoula, Butte, Great Falls, Billings, and Glendive. The department employed 1,782 people as of June 30, 1983.

The department spent approximately \$187,901,471 in fiscal year 1982-83 to carry out its programs. Total revenue was approximately \$135,828,700 in fiscal year 1982-83.

The following report sections discuss areas of concern noted during our audit of the department.

CASH FLOW

The department receives federal matching funds on a reimbursement basis to pay for highway construction. Because of the time

lag created pending the federal reimbursement, Montana provides funding for the federal government's share of highway costs.

The department instituted weekly billings in February 1982 in an effort to reduce the effect of this problem. Our audit results indicated the initiation of weekly billings had significantly reduced the time lag between the date the warrant clears the bank and the date federal payment is received to 5.8 days. The department has reduced the time lag to the minimum level possible until changes are made at the federal level.

In order to minimize the use of state funds, the goal is to receive the federal payment on the date the state warrant is returned to the bank for payment. Any time lag between the warrant clearing and federal payment creates a cash shortage covered by state funds. It is the responsibility of the officials at the Department of Highways to manage its funds to the benefit of the state. The department should continue to work with federal officials, at the national level if necessary, to eliminate the necessity for the state to advance cash to the federal highway program.

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT SEEK CHANGES AT THE FEDERAL LEVEL TO ELIMINATE THE NECESSITY FOR THE STATE TO ADVANCE CASH TO FEDERAL PROGRAMS.

INTER-ENTITY LOANS

State law in 17-2-107(2), MCA, provides for inter-entity loans. This statute states all inter-entity loans must be both: 1) approved by the Department of Administration; and 2) repaid by fiscal year-end unless it is for a purpose set forth in section 17-2-107(3) which includes payment of expenses later reimbursed by the federal government. Section 17-2-107(2), MCA, applies to all state agencies. No exemptions have been made for the Department of Highways. In its inter-entity loan procedures, however, the department has essentially created "permanent loans." These loans are not being repaid by fiscal year-end. The department

did not obtain the Department of Administration's approval to extend the loans into the next fiscal year and a repayment schedule has not been established to indicate how the loans would be repaid.

The majority of the department's inter-entity loan balance is comprised of a \$15.1 million loan from the Highway Earmarked Revenue account to the Federal and Private Revenue account. The loan was necessitated by the time delay between the state's payment to contractors and the receipt of the federal reimbursement, as discussed in the previous section. Because of the nature of the loan, the inter-entity loan balance fluctuates based upon the level of construction activity and the reimbursement status of contractor payments.

As noted in the previous section, the department could significantly reduce the need for the inter-entity loan if it was not necessary for the state to advance cash to federal programs. If the department still requires a permanent equity transfer for its operations, it should seek legislative authorization.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT ESTABLISH AND REPAY INTER-ENTITY LOANS IN ACCORDANCE WITH STATE LAW.

STORES INVENTORY

As of June 30, 1983, the department reported approximately \$14,300,000 in stores inventory. These inventories consist of office supplies, gas, oil, equipment parts, maintenance tools, gravel and asphalt. All inventories are recorded on the Stores Inventory Management System (SIMS).

Obsolete Stock Items

The department should dispose of all obsolete and slow moving assets. We noted a large number of obsolete or unneeded items, located in the divisions we visited, as well as the Helena headquarters. This is primarily due to the following reasons.

The department does not have a written policy pertaining to the identification of obsolete or slow moving items but instead relies upon the stockman to identify the items at his discretion. Department officials indicated the Helena office annually distributes a memorandum to all field offices requesting all obsolete items be sent to headquarters for disposition.

We noted several examples of inventory items which had no activity during the year. This indicates possible obsolete or excessive inventory. Cost of annual inventory, storage space, and computer time are unnecessarily increased by accounting for excess inventory. Excess inventory could be sent to the Surplus Property Bureau at the Department of Administration or sold at an auction.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT DEVELOP A POLICY TO IDENTIFY OBSOLETE OR SLOW MOVING INVENTORY.

Economic Order Quantity

The department should develop minimum and maximum inventory control levels based on economic order quantities. Responsibility for developing and attaining these levels should be assigned to the inventory coordinator.

Inventory control techniques help management determine what level of inventory is necessary to sustain smooth operations. The use of control techniques would contribute to the reduction of excess stock and obsolete items while assuring an inventory of critical items (such as specialized rotary snow plow parts) is maintained. Implementation of inventory control techniques would require the department to do a review of units on hand, demand, critical items, purchase costs, and carrying cost. Carrying costs include the cost of storage space, obsolescence, deterioration, theft, and lost interest (opportunity cost).

RECOMMENDATION #4

WE RECOMMEND THE DEPARTMENT DEVELOP MAXIMUM AND MINIMUM INVENTORY CONTROL LEVELS.

Inventory Count Procedures

We observed the department's count of stores inventory at two divisions and the Helena headquarters. We also reviewed inventory controls and performed test counts at each location visited. The department's counts have improved since our previous audit. However, as noted below, the department needs to continue to improve its compliance with its count procedures.

The department provided a detailed memorandum to its employees describing adequate inventory count procedures. These procedures were not always followed. We noted weaknesses relating to the tagging of the stock, the arranging of the stock, use of the count sheets, and supervision of the physical counts. The department could perform the physical count of inventory on a rotating basis throughout the year to allow for closer supervision by the Helena staff.

We also noted inadequate procedures relating to the segregation between the receiving of stock and the custody of stock and the limitation of access to computer terminals.

RECOMMENDATION #5

WE RECOMMEND THE DEPARTMENT:

- A. FOLLOW ITS ESTABLISHED INVENTORY COUNT PROCEDURES.
- B. CONSIDER PERFORMING THE TASK ON A ROTATING BASIS THROUGHOUT THE YEAR.
- C. ESTABLISH ADEQUATE PHYSICAL CONTROLS OVER INVENTORY STOCK ON HAND.

ACCOUNTING MATTERS

Bond Issue

Chapter 557, Laws of 1983, authorized the department to issue up to \$150 million of Highway Revenue Bonds. During fiscal year 1983 the department issued \$64 million of bonds for highway construction. In order to fully disclose the substance of the department's bond transactions the full value of the issue should be shown as bond proceeds, the accrued interest purchased by the bondholder be shown as a payable, and the related issuance cost be shown as an expenditure.

The department recorded \$394,566 of accrued interest purchased by the bondholder as bond proceeds rather than a payable, recorded the bond proceeds net of \$1,285,000 issuance costs, recorded \$252 of interest income as bond proceeds, and had not recorded \$190,000 of the issuance costs due to the underwriters as a payable.

As a result of using the above procedure, the bond proceeds, issuance costs, and amounts due to underwriters, in the Special Revenue Fund on the state's accounting system are understated by \$1,095,000; \$1,285,000; and \$190,000, respectively. In the Debt Service Fund bond proceeds is overstated and accrued interest payable is understated by \$394,566. The department adjusted its financial statements to fully disclose these transactions.

RECOMMENDATION #6

WE RECOMMEND THE DEPARTMENT PROPERLY RECORD
BOND SALE PROCEEDS.

Building Use

The department accounts for Equipment Bureau and Highway Service Unit costs in the Internal Service Fund. State policy requires that Internal Service Funds be accounted for on the accrual basis of accounting, recording all costs associated with the service operation. The measurement focus of Internal Service Funds is on the determination of net income, financial position, and changes in financial position. These units are not charged a

rental fee for the use of the buildings, nor are the buildings and associated depreciation recorded in the Internal Service Fund. Because these costs are not recorded as required, the net income and retained earnings for the Internal Service Fund are overstated. The department indicated the expense of recording these costs may exceed the benefit.

An alternative would be to account for the Equipment Bureau and Highway Service Unit costs in the Special Revenue Fund. In our previous audit for the two fiscal years ended June 30, 1980 we recommended the department reorganize the Equipment Bureau as part of the Maintenance Division. We noted that eighty-three percent of the bureau's total rental income in fiscal year 1979-80 was derived from Maintenance Division vehicle usage. Department administrators stated the current maintenance vehicle usage was between eighty and eighty-six percent. The department should study the current usage of the various vehicle classes in the Equipment Bureau. Those classes used exclusively by maintenance could be transferred to the Maintenance Division. Vehicle classes, which are similar to current Motor Pool vehicles and available for multiple use, could be transferred to the Motor Pool. Specialized equipment, such as core drills, could be transferred to the respective user.

RECOMMENDATION #7

WE RECOMMEND THE DEPARTMENT:

- A. REPORT ALL COSTS IN THE INTERNAL SERVICE FUND IN ACCORDANCE WITH STATE ACCOUNTING POLICY.
- B. STUDY THE FEASIBILITY OF RECLASSIFYING THE EQUIPMENT BUREAU AS A SPECIAL REVENUE FUND.

Investment Income Accrual

All of the department's investments are held by the state Board of Investments. These funds include the Woodville Highway Account (Expendable Trust Fund), Highway Revenue Bond Proceeds Account (Special Revenue Fund), and Highway Revenue Bond Debt Service Account (Debt Service Fund). The department did not

properly accrue earned investment income from these funds. The following table represents the effect of this error on beginning fund balance, revenue and accounts receivable for these funds on the state's accounting system.

	<u>Table 1</u>		
	<u>Expendable Trust Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>
Fiscal Year-End 1982			
Accrued Interest Earnings	\$18,828	\$ -0-	\$ -0-
Fiscal Year-End 1983			
Accrued Interest Earnings/Interest Receivable	<u>(7,720)</u>	<u>(10,922)</u>	<u>(3,376)</u>
Net Effect on 1983 Revenue (Under) Overstated	<u>\$11,108</u>	<u>\$ (10,922)</u>	<u>\$ (3,376)</u>

Source: Compiled by the Office of the Legislative Auditor

The Board of Investments does not routinely provide agencies with this information and the department must request interest accrual information each year. The agency adjusted its financial statements for the above errors.

RECOMMENDATION #8

WE RECOMMEND THE DEPARTMENT PROPERLY RECORD EARNED INVESTMENT INCOME AT FISCAL YEAR-END.

INTERNAL CONTROL

We have examined the financial statements of the Department of Highways for the fiscal year ended June 30, 1983. We issued our opinion dated October 28, 1983, on these statements. As part of our examination, we made a study and evaluation of the system of control of the Department of Highways. Our study evaluated the system as required by generally accepted governmental auditing standards for financial and compliance audits. We classified the controls in the following categories:

1. revenue/receipts;
2. operating expenditures;
3. payroll;
4. accounts payable/interfund loans payable;
5. accounts receivable/interfund loans receivable;
6. plant, property, and equipment;
7. inventory;
8. cash;
9. investments; and
10. data processing input/processing/output controls.

Our study included the control categories listed above. Through our study, we determined the nature, timing, and extent of our auditing procedures. We applied alternative audit tests to cash, investments, and accounts receivable because the audit could be performed more efficiently by expanding substantive audit work. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the Department of Highways is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: (1) assets are safeguarded against loss from unauthorized use or disposition; (2) transactions are executed in accordance with management's authorization; and (3) transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of study described in the first paragraph would not necessarily disclose all material weaknesses in the system.

Accordingly, we do not express an opinion on the system of controls used by the department. However, our study disclosed conditions that could result in financial statement errors that would be difficult to detect. These conditions relating to inventories and accounts receivable are discussed on pages 4 through 6, and 11.

These conditions were considered in determining the nature, timing, and extent of the audit tests of the financial statements and this report does not affect our report on the financial statements dated October 28, 1983.

The preceding four paragraphs are intended solely for the use of management and the legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon distribution to the Legislative Audit Committee, is a matter of public record.

Accounts Receivable

We performed selected audit procedures designed to provide a basis for concluding on the reasonableness of the accounts receivable balance reported on the June 30, 1983 balance sheet. Of the twenty high dollar, non-federal balances selected, we found errors in five instances. The following are examples of the problems noted during our testing.

1. The department established one particular receivable twice, resulting in a double balance. The department credited one of the accounts when the bill was settled, but failed to detect the additional account.
2. The amounts recorded in the subsidiary detail ledger were incorrect in two cases because of transposition errors when the account was established.
3. At June 30, 1983 the subsidiary detail ledger for the Motor Pool entity had an account representing a lump sum amount outstanding at June 30, 1982. The balance was adjusted so that individual balances were shown at fiscal year-end 1983. In adjusting the account, the department erroneously re-established some receivables that had already been collected, resulting in an overstatement of \$7,807 for two balances tested.

The above problems may have been avoided if the department had established and implemented internal control procedures to detect errors in accounts receivable balances.

RECOMMENDATION #9

WE RECOMMEND THE DEPARTMENT ESTABLISH AND IMPLEMENT PROCEDURES TO ENSURE ERRORS IN THE ACCOUNTS RECEIVABLE RECORDS ARE DETECTED AND BALANCES ARE PROPERLY REFLECTED.

FEDERAL COMPLIANCE

Our audit of federal moneys was performed in accordance with the requirements in the U.S. Office of Management and Budget "Circular A-102, Attachment P." This circular provides for audits of financial operations, including compliance with certain provisions of federal law and regulations.

Department of Highways was a grantee receiving federal funds from the federal agencies listed on page 32. We reviewed the major compliance areas for the Highway Research Planning and Construction (Federal Aid Highway Program). Areas reviewed included:

1. eligibility determination,
2. specific grant provisions, and
3. cost allowability.

We did not note any federal compliance problems or question any costs relating to the department's use of federal funds during fiscal year 1982-83. All items tested were in compliance with applicable laws and regulations. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

PRIOR AUDIT RECOMMENDATIONS

Our last financial/compliance audit of the Department of Highways for the two fiscal years ended June 30, 1982 contained twenty-three recommendations applicable to the department. The

department concurred with twenty-one, partially concurred with one, and did not concur with one of the recommendations. They have implemented or partially implemented seventeen of the recommendations.

The six recommendations which the department did not fully implement, or for which it has not taken adequate corrective action concern inter-entity loans, page 3; inventories (4 recommendations), page 4 through 6; and accounts receivable, page 11.

AUDITOR'S REPORT AND AGENCY FINANCIAL STATEMENTS

Office of the Legislative Auditor

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HELENA, MONTANA 59620
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STAFF LEGAL COUNSEL

JOHN W. NORTHEY



ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

The Legislative Audit Committee
of the Montana State Legislature:

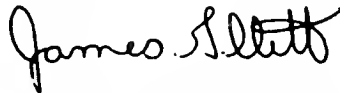
We have examined the financial statements of the various funds and account groups of the Montana Department of Highways as of, and for, the fiscal year ended June 30, 1983, as shown on pages 16 through 35. Our examination was made in accordance with generally accepted governmental auditing standards and, accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements of the various funds and account groups referred to in paragraph one present fairly the financial position of such funds as of June 30, 1983 and the results of operations and the changes in fund balance of such funds for the fiscal year then ended, in conformity with generally accepted accounting principles, which except for the change in fund classifications as discussed in footnote 15, with which we concur, have been applied on a basis consistent with that of the preceding year.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Combining Statements on pages 36 through 40 are presented for additional analysis and disclosure purposes and are not a required part of the combined financial statements of the Department of Highways. These statements have been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, are fairly stated in all

material respects in relation to the basic financial statements taken as a whole.

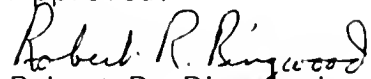
Respectfully submitted,

A handwritten signature in black ink, appearing to read "James H. Gillett". The signature is fluid and cursive, with the first name "James" being more prominent.

James H. Gillett, CPA
Deputy Legislative Auditor

October 28, 1983

Approved:

A handwritten signature in black ink, appearing to read "Robert R. Ringwood". The signature is cursive and somewhat stylized, with the last name "Ringwood" being more prominent.

Robert R. Ringwood
Legislative Auditor

MONTANA DEPARTMENT OF HIGHWAYS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1983

	GOVERNMENTAL FUND TYPE		PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPE	ACCOUNT GROUPS	
	Special Revenue	Debt Service	Internal Service	Trust And Agency	General Fixed Assets	General Long-Term Debt
ASSETS						
Cash	\$ 38,087,507	\$ 1,149	\$ 921,870	\$1,106,743		
Accounts Receivable (Nnte 9)	27,669,832		1,437,389	393,412		
Interest Receivable on Investments				7,720		
Allowance for Doubtful Accounts	(55,363)		(20,000)			
Inter-Entity Loan Receivable	19,629,864					
Investments (Note 1C)	50,237,826	13,312,480		986,541		
Prepayments	274,873		1,180			
Amount Available in Sinking Fund						
Department of Highways						\$13,179,677
Department of Administration						693,240
Amount to be Provided to Retire						
Long-Term Debt						55,802,083
Inventories (Note 1H)	14,297,701					
Land (Note 4)			234,649		\$ 1,159,335	
Building (Note 4)					24,191,964	
Equipment (Note 4)			32,770,782		5,088,870	
Accumulated Depreciation			(14,921,348)			
Construction Work in Progress						
(Note 4)			294,756		324,355	
Total Assets	\$150,142,240	\$13,313,629	\$20,719,278	\$2,494,416	\$30,764,524	\$69,675,000
LIABILITIES AND FUND EQUITY						
LIABILITIES:						
Accounts Payable	\$ 3,195,638		\$ 230,578	\$ 392,496		
Inter-Entity Loans Payable	18,797,251		832,613			
Accountability for Advances	1,240,054					
Accrued Liabilities	15,989,161	\$ 394,566	789,017	1,103,741		
Bonds Payable						
General Obligation Highway Bonds						
(Note 2)						\$ 5,675,000
Highway Revenue Bonds (Note 2)						64,000,000
Unaccumulated Bond Discounts	117,746	133,952				
Deferred Revenue	570,586					
Total Liabilities	\$ 39,910,436	\$ 528,518	\$ 1,852,208	\$1,496,237	\$ 0	\$69,675,000
FUND EQUITY:						
Fund Balance	\$ 92,479,292	\$12,785,111		\$ 998,179		
Retained Earnings			\$17,473,278			
Reserve for Inventory	14,297,701					
Investment in General Fixed Assets					\$30,764,524	
Reserve for Encumbrances (Note 14)	3,454,811					
Transfers From Other Entities			1,393,792			
Total Fund Equity	\$110,231,804	\$12,785,111	\$18,867,070	\$ 998,179	\$30,764,524	\$ 0
Total Liabilities & Fund Equity	\$150,142,240	\$13,313,629	\$20,719,278	\$2,494,416	\$30,764,524	\$69,675,000

The notes to the Financial Statements are an integral part of this statement.

MONTANA DEPARTMENT OF HIGHWAYS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	GOVERNMENTAL FUND TYPES			FIDUCIARY FUND TYPE
	General	Special Revenue	Debt Service	Expendable Trust
<u>REVENUES</u>				
Taxes		\$ 17,073,430		
Licenses and Permits		4,141,558		
Sale of Documents, Merchandise and Property		162,497		
Rental Leases and Royalties		89,172		
Miscellaneous		1,039,972		
Service Fees		9,930,663		
Federal Assistance (Note 8)		91,368,642		
Administrative Fees		70,339		
Investment Earnings				\$ 81,945
Total Revenues	\$ 0	\$123,876,273	\$ 0	\$ 81,945
<u>EXPENDITURES</u>				
General Operations		\$ 10,068,297		
Construction		105,646,747		
Maintenance		36,368,781		
Preconstruction		10,862,431		
Capital Outlay		571,153		
Stores Inventory		11,318,875		
Total Expenditures	\$ 0	\$174,836,284	\$ 0	\$ 812,604
Excess of Revenues Over (Under) Expenditures	\$ 0	\$ (50,960,011)	\$ 0	\$ (730,659)
<u>OTHER FINANCING SOURCES (USES)</u>				
Prior Year Revenue		\$ 727,043		\$ 18,828
Prior Year Expenditure		(2,394,667)		
Support From (To) General Fund	\$ 2,000,000			
Transfers Out (Note 17)	(2,000,000)	(13,515,913)		
Transfers Out-Equipment Bureau		(1,340,962)		
Cash Transfers In (Note 17)		49,694,600		
Merchandise Inventory		1,748,866		
Bond Proceeds (Note 2)		51,215,142	12,785,111	
Total Other Financing Sources (Uses)	\$ 0	\$ 86,134,109	\$12,785,111	\$ 18,828
Excess of Revenues Over (Under) Expenditures and Other Sources (Uses)	\$ 0	\$ 35,174,098	\$12,785,111	\$ (711,831)
Fund Balance July 1, 1982	\$ 0	\$ 63,455,559	\$ 0	\$ 0
Adjustment (Note 15)		11,602,147		1,710,010
Fund Balance July 1, 1982	\$ 0	\$ 75,057,706	\$ 0	\$1,710,010
Fund Balance June 30, 1983 (Note 14)	\$ 0	\$110,231,804	\$12,785,111	\$ 998,179

The notes to the Financial Statements are an integral part of this statement.

MONTANA DEPARTMENT OF HIGHWAYS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	Budget	Actual	Variance- Favorable (Unfavorable)	Budget	Actual	Variance- Favorable (Unfavorable)
<u>REVENUES</u>						
Taxes				\$ 15,915,404	\$ 17,073,430	\$ 1,158,026
Licenses & Permits				4,959,995	4,141,558	(818,437)
Sale of Documents, Merchandise & Property				449,200	162,497	(286,703)
Rental Lease & Royalties				130,000	89,172	(40,828)
Miscellaneous				1,520,001	1,039,972	(480,029)
Service Fees				14,553,052	9,930,663	(4,622,389)
Federal Assistance (Note 8)				71,536,669	91,368,642	19,831,973
Administrative Fees				64,700	70,339	5,639
Total Revenues	\$ 0	\$ 0	\$ 0	\$109,129,021	\$123,876,273	\$14,747,252
<u>EXPENDITURES</u>						
General Operations				\$ 8,810,752	\$ 8,872,759	\$ (62,007)
Construction				126,361,994	105,922,912	20,439,082
Maintenance				40,860,398	38,652,448	2,207,950
Preconstruction				13,381,236	10,876,364	2,504,872
Highway Service Revolving				60,147	0	60,147
Capital Outlay				571,153	571,153	0
Stores Inventory				14,518,052	11,318,875	3,199,177
Total Expenditures	\$ 0	\$ 0	\$ 0	\$204,563,732	\$176,214,511	\$28,349,221
Excess of Revenues Over (Under) Expenditures	\$ 0	\$ 0	\$ 0	\$(95,434,711)	\$(52,338,238)	\$43,096,473
<u>OTHER FINANCING SOURCES (USES)</u>						
Prior Year Revenue				\$ 727,043	\$ 727,043	\$ 0
Prior Year Expenditure				(2,394,667)	(2,394,667)	0
Support From (To) General Fund	\$ 2,000,000	\$ 2,000,000	\$ 0			
Transfers Out (Note 17)	(2,000,000)	(2,000,000)	0	(13,515,913)	(13,515,913)	0
Transfers Out-Equipment Bureau				(2,513,700)	(2,179,210)	334,490
Cash Transfers In (Note 17)				49,694,600	49,694,600	0
Merchandise Inventory				1,748,866	1,748,866	0
Bond Proceeds				50,120,000	51,215,142	1,095,142
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ 0	\$ 83,866,229	\$ 85,295,861	\$ 1,429,632
Excess of Revenues Over (Under) Expenditures & Other Sources (Uses)	\$ 0	\$ 0	\$ 0	\$(11,568,482)	\$ 32,957,623	\$44,526,105
Fund Balance July 1, 1982 (Note 15)				\$ 62,217,223	\$ 62,217,223	\$ 0
Adjustment (Note 15)				11,602,147	11,602,147	0
Fund Balance July 1, 1982				73,819,370	73,819,370	0
Fund Balance July 30, 1983 (Note 14)	\$ 0	\$ 0	\$ 0	\$ 62,250,888	\$106,776,993	\$44,526,105

The notes to the Financial Statements are an integral part of this statement.

MONTANA DEPARTMENT OF HIGHWAYS
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	<u>PROPRIETARY FUND TYPE</u> <u>Internal Service</u>
<u>OPERATING REVENUE</u>	
Sale of Documents, Merchandise and Property	\$ 251
Miscellaneous Receipts	132,722
Service Fees	<u>11,737,509</u>
Total Operating Revenues	<u>\$11,870,482</u>
<u>OPERATING EXPENSES</u>	
Salaries and Benefits	\$ 4,840,099
Operating Expenses	5,539,310
Depreciation	1,856,114
Loss on Sale of Equipment	16,765
Bad Debt Expense	<u>295</u>
Total Operating Expenses	<u>\$12,252,583</u>
Operating Income (Loss)	<u>\$ (382,101)</u>
<u>NON-OPERATING REVENUES (EXPENDITURES)</u>	
Prior Year Revenue	\$ (43,903)
Prior Year Expense	<u>(1,040,353)</u>
Total Non-Operating Revenue (Expenditures)	<u>\$(1,084,256)</u>
Net Income (Loss)	<u>\$(1,466,357)</u>
Retained Earnings July 1, 1982	\$30,808,733
Adjustment (Note 15)	<u>(11,602,147)</u>
Retained Earnings July 1, 1982	\$19,206,586
Transfers from Other Agencies	1,393,792
Cash Transfer Out	<u>(266,951)</u>
Retained Earnings June 30, 1983	<u>\$18,867,070</u>

The notes to the Financial Statements are an integral part of this statement.

MONTANA DEPARTMENT OF HIGHWAYS
COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	<u>PROPRIETARY FUND TYPE</u> <u>Internal Service</u>
<u>SOURCES OF WORKING CAPITAL</u>	
Operations:	
Net Income (Loss)	\$(1,466,357)
Items Not Requiring (Providing)	
Working Capital:	
Depreciation	\$ 1,856,114
Loss on Sale of Equipment	4,049
Gain on Sale of Equipment	(6,747)
Bad Debt	295
Equipment	<u>14</u>
Total Sources of Working Capital	<u>\$ 387,368</u>
<u>USES OF WORKING CAPITAL</u>	
Land Purchase	\$ (7,028)
Equipment Purchases - Net	(1,959,438)
Transfers to Other Entities	<u>(266,951)</u>
Total Uses of Working Capital	<u>\$(2,233,417)</u>
Net Increase (Decrease) in	
Working Capital	<u><u>\$(1,846,049)</u></u>
<u>ELEMENTS OF NET INCREASE (DECREASE)</u>	
<u>IN WORKING CAPITAL</u>	
Cash	\$(1,774,605)
Accounts Receivable	330,423
Accounts Payable	(156,232)
Loans Payable	(245,131)
Expense Advances	(525)
Other Prepayments	<u>21</u>
Net Increase (Decrease) in	
Working Capital	<u><u>\$(1,846,049)</u></u>

The notes to the Financial Statements are an integral part of this statement.

MONTANA DEPARTMENT OF HIGHWAYS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1983

1. Summary of Significant Accounting Policies

The Department of Highways operates under a director appointed by the Governor and consists of the following programs during the audit period: General Operations, Construction, Maintenance, Preconstruction, Highway Service Revolving, State Motor Pool, Equipment, Capital Outlay and Stores Inventory - Maintenance Accounts Receivable.

- A. Basis of Presentation The accompanying financial statements were prepared from the Statewide Budgeting and Accounting system (SBAS). The Department adjusted the accompanying statements for all material misstatements noted.

The accounts of the Department of Highways are organized on the basis of funds, each of which is considered a separate accounting entity.

The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, equities, revenues and expenditures.

The Department reports its financial activity in accordance with Generally Accepted Accounting Principles (GAAP) as prescribed by (1) Audits of State and Local Governmental Units (ASLGU) by the American Institute of Certified Public Accountants, and (2) Statement 1, Governmental Accounting, and Financial Reporting by the National Council on Governmental Accounting.

- B. Fund Structure - The State of Montana's accounts are organized by a fund structure as outlined in Section 17-2-102, MCA. For financial presentation, these funds have been reclassified according to the National Council on Governmental Accounting (NCGA), Governmental Accounting and Financial Reporting Principles Statement 1.

The following fund types were used for financial statement presentations with notations on the incorporation of the existing Montana fund structure:

- (1) Governmental Funds - those through which most government functions typically are financed:

General Fund - to account for all financial resources except those to be accounted for in another fund (Legislative appropriation required).

Special Revenue Funds - These are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriation is required. Special revenue funds include the Highway Earmarked Revenue Account, the Coal Area Earmarked Revenue Account, the Reconstruction Trust Account, the Federal and Private Revenue Account, the Highway Revenue Bond Proceeds Account, and the Stores Inventory - Maintenance Accounts Receivable Account.

- a) Highway Earmarked Revenue Account - Accounts for various Department activities financed primarily from State motor fuel taxes. The activities include highway maintenance, department administration, and the State's share of highway construction costs.

Fees from the sale of outdoor sign permits are transferred to the Highway Earmarked Revenue Fund.

Fifty percent of the amount derived from any and all sales, bonuses, royalties and rentals involving Federal land in Montana and paid into the U.S. Treasury is paid to the State of Montana by the U.S. Government. MCA Section 17-3-201, as amended, provides for distribution of these monies. The Department of Highways receives 37½% of the total of the amount paid to the State.

- b) Coal Area Earmarked Revenue Account - An earmarked revenue fund to account for the receipt and expenditure of coal taxes allocated for the improvement of deficient highway sections in the eastern Montana coal field economic growth center.
- c) Reconstruction Trust Account - Accounts for the reconstruction of highways on the Primary and Secondary systems. Funds are expended on reconstruction projects to straighten, widen or make major improvements to the basis of the highway or make major improvements in grades or curves, and not on routine repairs.
- d) Federal and Private Revenue Account - Accounts for receipts and expenditures of federal monies designated for highway construction projects.
- e) Highway Revenue Bond Proceeds Account - Accounts for the 1) expenditures of bond proceeds to finance the State's share of the cost of construction, reconstruction and repair of certain designated federal-aid highways.
- f) Stores Inventory - Maintenance Accounts Receivable Account - Accounts for the financial activity of the Department's inventory and Maintenance Accounts Receivable. Stores Inventory's purpose is to purchase, maintain and issue

inventory used by the Department throughout the State. Maintenance Accounts Receivable's purpose is to accumulate all charges as work or materials are being expended on a project for other governmental agencies, or caused by the traveling public on a reimbursable basis.

Debt Service Fund - to account for the accumulation of resources for and the payment of general long-term debt principal and interest.

- a) Highway Revenue Bond Debt Service Account - Accounts for the payment of the principal and interest on the Highway Revenue Bonds, Series 1983, for \$64,000,000.

(2) Proprietary Funds:

Internal Service Funds - Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis. At the Department of Highways, the internal service funds are the Motor Pool Revolving Account, the Highway Service Revolving Account, and the Equipment Bureau Revolving Account (all require Legislative appropriation).

- a) Motor Pool Revolving Account - An internal service fund to account for the financial activities of the State motor pool. The motor pool operates a fleet of passenger type vehicles available for rental by all State agencies based in Helena.
- b) Highway Service Revolving Account - An internal service fund to account for the financial activities of five support services such as, data processing, printing, photography, airplane, and material testing, common to all divisions.
- c) Equipment Bureau Revolving Account - An internal service fund to account for the financial activities of the Department's Equipment Bureau. The Bureau is responsible for purchasing and maintaining equipment and vehicles owned and used by the Department throughout the State.

(3) Fiduciary Funds - Trust and agency funds account for assets held by a governmental unit in a trustee capacity or, as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) Expendable Trust Funds, (b) Nonexpendable Trust Funds, (c) Pension Trust Funds, and (d) Agency Funds. The Department's Fiduciary funds are classified as:

- a) Woodville Highway Replacement Expendable Trust - To account for the proceeds and interest earned on the sale

of a section of highway to the Anaconda Company. The Department is holding these monies in trust with the intent that they be used to improve Butte-Silver Bow area roadways.

- b) GVW Agency Fund - To hold fees collected for gross vehicle weight permits and licenses for later distribution to the appropriate counties and State agency funds.

(4) Account Groups:

General Fixed Assets Account Group - This account group reflects the historical cost of fixed assets acquired from all funds other than proprietary funds.

Fixed asset purchases by the Earmarked Revenue Fund are recorded as expenditures at the time of purchase, and these items are capitalized in the State's Property Accountability Management System as general fixed assets. No depreciation is recorded on general fixed assets.

General Long-Term Debt Account Group - This account group accounts for the unmatured principal of general long-term debt relating to the (1) Highway Department Building Complex, (2) Highway Revenue Bonds, series 1983. Specific liabilities of the revolving funds or agency funds are not reflected in this account group.

- C. Basis of Accounting - The Department of Highways utilizes the modified accrual basis of accounting for the Special Revenue, Debt Service, Expendable Trust, and Agency Funds.

Under the modified accrual basis of accounting, expenditures are recorded on the basis of valid obligations. Revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if (1) they are measurable and available to finance expenditures of the fiscal period or, (2) are material in amount and are not received at the normal time of receipt. Expenditures are recognized when the related liability is incurred except:

- 1) systems development inter- or intra-agency service agreements may be accrued at the end of the fiscal year in which created;
- 2) equipment expenditures may be charged against the fiscal year in which budgeted;
- 3) interest on long-term debt is recorded when due; and
- 4) obligations for employees' vested annual leave and sick leave are recorded as expenditures when paid.

The Department utilizes the accrual basis of accounting for the Internal Service Funds. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred (if measurable).

- D. Budget Policies - The Department utilizes a fixed annual basis of budgeting. Under the fixed annual method, appropriations of specific dollar amounts are set for each fiscal year of a biennium by the Legislature. Appropriations control the Department's financial operations during each fiscal year. At the end of each year, the Department's Special Revenue Fund and Internal Service Fund appropriations revert to the fund of original appropriation. The reverted appropriation may be used in the subsequent year as authorization for valid prior year obligations.

Budget amendments represent the authorization to spend funds not available for consideration by the Legislature but available from other sources other than the general fund or federal revenue sharing monies. They are subject to approval of the Governor.

Budget amounts on the financial statements represent final budgets after all amendments. The 1981 Legislature restricted the use of budget amendments in the Earmarked Revenue Fund for fiscal year 1982 and 1983. Earmarked Revenue Fund budget amendments may only be approved if an emergency justifies the expenditure.

The Department's appropriations are allocated by the following programs:

- Fiscal Year 1983
- 1) General Operations
 - 2) Construction
 - 3) Maintenance
 - 5) Preconstruction
 - 6) Highway Service
 - 7) Motor Pool
 - 8) Equipment Bureau
 - 11) Capital Outlay
 - 12) Stores Inventory - Maintenance
Accounts Receivable

- E. Encumbrances - Encumbrances accounting is utilized by the Department as a management budgetary control technique. This accounting technique reflects expenditures for purchase orders, contracts, and other commitments for goods and services in the period when the commitment is made as opposed to the period when the product is received and payment is rendered. At year-end, in accordance with State policy, major qualifying encumbrances are reclassified as payables and charged to expenditures. This technique is not in accordance with Generally Accepted Accounting Principles (GAAP) (See Note 1F).

- F. Budget Basis - The Department's annual budget is prepared principally on the same basis as the accounting for each fund type. The budget basis differs from GAAP for encumbrances outstanding at year-end, and fixed assets. Encumbrances outstanding do not constitute expenditures or liabilities in accordance with Generally Accepted Accounting Principles. To comply with GAAP, fixed assets in proprietary type funds should be recognized as an expense through depreciation, rather than expensing at the time of purchase.
- G. Investments - As of June 30, 1983, the Woodville Highway Replacement Fund had 983 units of short-term investment pool for a total investment of \$986,541. Market value was \$947,602 at June 30, 1983.

As of June 30, 1983, the Highway Revenue Bond Debt Service and Highway Revenue Bond Proceeds Funds had the following investments:

	<u>Cost</u>	<u>Market</u>
<u>Debt Service</u>		
Short Term Investment Pool	\$ 458,918.40	\$ 462,715.20
- 480 Units		
Federal Securities	6,185,000.00	6,185,000.00
Other Investments	6,465,937.50	6,466,047.91
<u>Bond Proceeds</u>		
Short Term Investment Pool	\$ 9,977,650.88	\$10,060,199.64
- 10,436 Units		
Long-Term	39,988,537.50	39,988,679.25

- H. Inventories - The Department maintains a stores program to properly reflect cost of operation for the stores inventory function. The inventories of materials and supplies are stated at weighted average cost.

The Stores Inventory program uses the "purchases method" where inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reserve of fund balance.

The Stores Program utilizes the periodic inventory procedure.

- I. Fixed Assets and Depreciation - The Department's general fixed assets are accounted for in the General Fixed Assets Account Group. No depreciation is recorded on general fixed assets. Fixed asset valuation is stated at actual or estimated historical cost, or, for donations, fair market value at the time of receipt. Interest during construction is not capitalized. Also, infrastructure general fixed assets such as highways, bridges, curbs and gutters and similar assets are not capitalized.

Vehicles and equipment in the Internal Service Fund are depreciated on a straight line basis according to the estimated normal life in miles, hours or years.

- J. Vacation and Sick Leave - The Department's employees accrue vacation and sick leave in accordance with State law. Annual leave and sick leave costs are not recorded as expenditures until leave is taken. In the event of termination, employees receive payment for 100% of unused vacation leave and 25% of unused sick leave (only sick leave earned after 7-1-71).

The Department's estimated liability for accumulated vacation and sick leave as of June 30, 1983 were as follows:

<u>Fund</u>	<u>Sick Leave</u>	<u>Annual Leave</u>	<u>Total by Fund</u>
Special Revenue Funds	\$ 463,784	\$3,574,448	\$4,038,232
Internal Service Funds			
(A) Highway Service	22,704	172,177	194,881
(B) Motor Pool	1,348	12,104	13,452
(C) Equipment Bureau	32,370	258,140	290,510
	<u>\$ 520,206</u>	<u>\$4,016,869</u>	<u>\$4,537,075</u>

2. Long-Term Debt

A) General Obligation Highway Complex Building Bonds

The Department occupied its building in 1978. The building asset and long-term debt is accounted for by the Department and included in the Department's financial statements. The Highway Complex Building bonds are secured by gas tax revenues and are a responsibility of the Department. However, investment earnings and transfers appear in the debt service fund in the Department of Administration's financial records. The Department's long-term debt is comprised of the following Highway Building Complex bonds:

Issued April, 1976, \$7,400,000, due in April, 1996. Interest is at rates varying from 4.10% to 6.10%. Annual payments range from \$205,000 to \$600,000. Outstanding at June 30, 1983, \$5,675,000.

State law requires the sinking funds for the Highway Building Complex bonds maintain a pledged tax reserve. The reserves, after each principal and interest payment, are required to be at least equal to the maximum amount of principal and interest which will come due in any subsequent fiscal year on all such bonds then outstanding.

State law provides that for the General Obligation Highway Bonds, no additional bonds may be issued unless the maximum amount of principal and interest to become due in any subsequent fiscal year on all such bonds, including the new issue, does not exceed 25% of the amount of pledged taxes collected during the preceding fiscal year. As of June 30, 1983, there was \$5,675,000 of outstanding bonds. The maximum annual amount of principal and interest is \$630,000 due in 1996. Twenty-five percent of the pledged taxes collected during fiscal year 1983 was \$9,033,193.

B) Highway Revenue Bonds, Series 1983

The 1983 bonds were issued pursuant to the Montana Highway Revenue Bonds Act of 1983, Ch. 557, 1983 Laws of Montana, to finance construction, reconstruction and repair of certain designated public highways within the State. The bond proceeds and long-term debt is accounted for by the Department and included in the financial statements. The Highway Revenue Bonds are limited obligations of the State payable solely from highway revenues. The bonds are secured by a pledge of all revenues from gross vehicle weight fees and excise and license taxes (other than general sales and use taxes) on gasoline and other motor vehicle fuels, subject only to a prior pledge and appropriation of gasoline tax revenues in favor of General Obligation Highway Complex Building Bonds (A above). The Department's long-term debt is comprised of the following Highway Revenue Bonds, Series 1983:

Issued June 1, 1983, \$64,000,000, Serial Bonds, due in September, 1990. Rates vary from 6.75% to 8.25%. Annual payments range from \$3,673,547 to \$15,599,281. Outstanding at June 30, 1983 is \$64,000,000.

The resolution requires the Highway Revenue Bond Debt Service Reserve Account for the bonds to maintain a pledged tax reserve. The reserve must be an amount sufficient to maintain the balance therein at an amount equal to the maximum annual principal and interest due on the Bonds less the portion thereof attributable to Bonds issued for the purpose of making such deposit.

The Act permits the issuance of one or more series of highway revenue bonds secured by a pledge of highway revenues. No more than \$150,000,000 of bonds issued under the Act may be outstanding at any one time. The 1983 Bonds are the first bonds to be issued under such authority.

Changes in Long-Term Debt
For Fiscal Year Ended June 30, 1983

	<u>General Obligation Highway Complex Building Bonds</u>	<u>Highway Revenue Bonds Series 1983</u>	<u>Total</u>
Bonds Payable at June 30, 1982	\$5,965,000	-	\$ 5,965,000
New Bonds Issued:			
Highway Revenue, Series 1983	-	\$64,000,000	64,000,000
Bonds Retired	(290,000)		(290,000)
Bonds Payable at June 30, 1983	<u>\$5,675,000</u>	<u>\$64,000,000</u>	<u>\$69,675,000</u>

Annual Requirements to Amortize Long-Term Debt
June 30, 1983

The debt service requirements for obligations of the Department, including the \$5,675,000 General Obligation Highway Building Complex Bonds and the \$64,000,000 1983 Bonds, are set forth below.

Fiscal Year	General Obligation		1983 Bonds		Total	Total Debt Service Requirements
	Highway Complex Building Bonds	Principal	Interest			
1984	\$ 580,208	-	\$ 3,673,547	\$ 3,673,547	\$ 4,253,755	
1985	587,245	-	4,898,063	4,898,063	5,485,308	
1986	590,945	-	4,898,063	4,898,063	5,489,008	
1987	592,645	\$11,075,000	4,524,281	15,599,281	16,191,926	
1988	596,085	11,825,000	3,721,844	15,546,844	16,142,929	
1989	602,845	12,680,000	2,801,837	15,481,837	16,084,682	
1990	603,000	13,665,000	1,763,887	15,428,887	16,031,887	
1991	606,750	14,755,000	608,644	15,363,644	15,970,394	
1992	614,250	-	-	-	614,250	
1993	615,250	-	-	-	615,250	
1994	620,000	-	-	-	620,000	
1995	623,250	-	-	-	623,250	
1996	630,000	-	-	-	630,000	
	<u>\$7,862,473¹</u>	<u>\$64,000,000</u>	<u>\$26,890,166</u>	<u>\$90,890,166</u>	<u>\$98,752,639</u>	

¹ - Total includes \$5,675,000 of principal and \$2,187,473 of interest payments.

3. Retirement Plan

The Department's employees are covered by the Public Employee's Retirement System (PERS). Under the system, contribution rates based on gross wages were 6% for employees and 6.32% for the Department during fiscal year 1983. The Department's contribution to the plan was \$2,360,736 for the fiscal year ending June 30, 1983.

At June 30, 1982 the PERS was determined to be actuarially sound according to a report by the systems actuary. The unfunded past service costs and the actuarially computed value of the vested benefits were not readily available for members of the plan employed by the Department. The report is done on a bi-annual basis and fiscal year 1983 will be included in the fiscal year 1983, 1984 report.

Various Department employees are also covered by the following union pension funds for fiscal year 1983.

- a) Western Conference of Teamsters Pension Trust Fund
 - Participants - 225 Department employees
 - Rate - .35 per hour paid by employee
- b) Laborers' International Union of North American National (Industrial) Pension Fund
 - Participants - 7 Department employees
 - Rate - .10 per hour paid by employee
- c) International Brotherhood of Painters and Allied Trades Union and Industry National Pension Fund
 - Participants - 5 Department employees
 - Rate - .15 per hour paid by employee
- d) International Association of Machinists and Aerospace Workers National Pension Fund
 - Participants - 39 Department employees
 - Rate - .30 per hour paid by employee

4. Fixed Assets

The department records assets on the State's Property and Accountability Management System. Fixed asset balances as of June 30, 1983 and the changes since June 30, 1982 follow.

<u>General Fixed Assets</u>	<u>6-30-82 Balance</u>	<u>Net Additions (Deletions)</u>	<u>6-30-83 Balance</u>
Land	1,188,881	(29,546)	1,159,335
Building	21,763,237	2,428,727	24,191,964
Equipment	4,281,467	807,402	5,088,869
Construction Work- in-Progress	2,090,222	(1,765,867)	324,355
Total	<u>29,323,807</u>	<u>1,440,716</u>	<u>30,764,523</u>

<u>Revolving Funds</u>	<u>6-30-82 Balance</u>	<u>Net Additions (Deletions)</u>	<u>6-30-83 Balance</u>
Land	\$ 227,621	\$ 7,028	\$ 234,649
Equipment	29,357,238	4,251,792	33,609,030
Work-in-Progress	382,984	(88,228)	294,756
Total	<u>\$29,967,843</u>	<u>\$4,170,592</u>	<u>\$34,138,435</u>
Less Accumulated Depreciation			<u>\$ (14,921,348)</u>
Total			<u>19,217,087</u>

5. Payroll Overhead

Assigned payroll overhead costs are accumulated and charged to projects at a fixed rate throughout the year. The difference between the assigned costs and actual costs incurred is an adjustment of the next years fixed rate.

6. Loans

Inter-entity loans are non-interest bearing and recorded as a payable by the receiving entity and a receivable by the advancing entity.

Of the 19,629,864 inter-entity loan receivable balance in the Earmarked Revenue Account within the Special Revenue fund, approximately 15,097,251 or 77% is loaned to the Federal and Private Revenue Account within the Special Revenue Fund. The monies are used for payment of expenses later reimbursed by the federal government according to MCA Section 17-2-107(3).

7. Lease and Contract Commitments

The Department leases various office and other facilities throughout the State. The leases did not meet any of the criteria for classification as capital leases. Therefore, these leases are classified as operating leases. It is expected that similar lease agreements will be entered into in future periods. The Department also has major long-term commitments under unperformed contracts. The major dollar amount is due to construction contracts. The commitments for contracts as of June 30, 1983 follows:

	<u>Project Authorization</u>	<u>Expended to June 30, 1983</u>	<u>Committed</u>
Contract Commitments	\$168,348,033	\$85,713,438	\$82,634,595

Estimated commitments under non-capitalized leases provide for minimum annual lease payments as follows:

1984	\$47,611
1985	46,741
1986	47,160
1987	40,731
1988	40,937
Thereafter	40,879
TOTAL	<u>\$264,059</u>

8. Federal Assistance

The department receives federal monies through various programs. These program receipts are subject to audit and review. As of June 30, 1983, there were no questioned receipts relating to the following Schedule of Federal Aid Receipts.

MONTANA DEPARTMENT OF HIGHWAYS SCHEDULE OF FEDERAL AID RECEIPTS FISCAL YEAR ENDING JUNE 30, 1983

<u>PROGRAM</u>	<u>PROJECT NUMBER</u>	<u>FISCAL YEAR 1983 RECEIPTS</u>
Demonstration Project for Powder Coated Guardrail	DTFH 71-81-57-MT-01	\$ 10,385
Missile Poads - Equipment Purch. and Winter Maintenance	OMAD 300 (21)	330,319
Supportive Training for Minority Trainees	Supportive Order 110-11 Supportive Order 110-12	53,386 35,666
Training-Basic Poad Design Course	FNHIET 81(11)	13,003
Construction Inspection Training	FNHIET 81(12)	2,656
Evaluation of Construction and Recycling Project-Wibaux	DOT 15-338	2,471
Value Engineering Study-Crack and Joint Sealing	DOT FH 11-8611	2,956
Highway Projects	Fed. Hwy. Admin.	84,469,364
Total		<u>\$84,920,206</u>

NOTE: The program receipts received are recorded in various funds and revenue classifications depending upon the nature of the program. Federal assistance revenue reported in the financial statements include mineral lease payments not included in this schedule.

9. Accounts Receivable

Accounts Receivable in the Federal and Private Revenue Fund represent amounts due from the Federal Government for the federal share of highway construction costs. The balances include non-agreements and overruns in the amount of \$440,038 at June 30, 1983. Non-agreements are projects for

which federal agreements have not been consummated. Overruns are projects for which costs exceeded federal approved participation amounts, and federal approved for supplemental participation is in the process of being obtained.

10. Insurance

The Department is insured by the State of Montana's various plans that are administered by the Department of Administration.

11. City-County Expenditures

Included in the Highway Earmarked Revenue Fund construction expenditures are distributions to cities and counties for their share of certain local project costs. These expenditures amounted to \$26,196 in fiscal year 1983.

12. Other Agency Expenditures

The Highway Earmarked Revenue Fund is used by other State agencies. Current year expenditures in the highway earmarked fund other than the Department of Highways were for the following agencies.

<u>Department</u>	<u>1983</u>	<u>Purpose</u>
Dept. of Justice	\$ 6,547,304	Highway Patrol
	68,031	Highway Safety
Dept. of Commerce	75,000	City-County Gas Tax Distr.
Dept. of Revenue	636,536	Gas Tax Collection Expense
Dept. of Administration	6,575,000	City-County Gas Tax Distr.
Long Range Building Plan	224,862	Construction
Total	<u>\$14,126,733</u>	

13. Litigation

As of June 30, 1983, six lawsuits have been filed against the Department. Four various highway construction contractors are seeking additional payments on their respective contracts. Two lawsuits involve minimal damages. A possibility exists that other construction contractors will file. No estimate of substantial financial liability, if any, can be made as of this date.

14. Actual GAAP vs. Budgetary Basis Data

The budget basis differs from Generally Accepted Accounting Principles (GAAP) for encumbrances outstanding at year-end. This accounting technique reflects expenditures for purchase orders, contracts and other commitments for goods and services in the period when the commitment is made as opposed to the period when the product is received and payment is rendered. At year-end, in accordance with State policy, major qualifying encumbrances are reclassified as payables and charged to expenditures. Encumbrances outstanding do not constitute expenditures or liabilities in accordance with GAAP. Accordingly, a Combining and Combined Statement of

Revenues, Expenditures and Changes in Fund Balances was presented on the GAAP basis and on the budgetary basis for fiscal year 1983.

Because GAAP does not allow certain encumbrances outstanding at year-end, the difference between the two statements' Fund Balances was the following:

GAAP Basis Fund Balance	\$110,231,804
Budgetary Basis Fund Balance	<u>106,776,993</u>
	<u>\$ 3,454,811</u>

15. Accounting Change

During fiscal year 1983, Accounting Entity 07236 - Stores Inventory/Maintenance Accounts Receivable was changed from an Internal Service Fund in the Proprietary Fund Type to a Special Revenue Fund in the Governmental Fund Type.

Woodville Highway Replacement accounting entity reporting has been changed from an Agency Fund to an Expendable Trust Fund in Fiscal Year 1983.

16. Subsequent Events

On September 1, 1983, \$39,075,000 of Department of Highways, Highway Revenue Bond Anticipation Notes, Series 1983, were issued. The Notes are issued pursuant to the Montana Highway Revenue Bonds Act of 1983, Ch. 557, 1983 Laws of Montana. The Notes are being issued in anticipation of a series of additional bonds under the General Resolution (the "Refunding Bonds") to finance a portion of the cost of the construction of certain interstate highway system projects within the State, and also to pay interest on the Notes due prior to maturity.

The Notes are limited obligations of the State, payable solely from the Refunding Bonds to the extent not paid from other sources.

In the Note Resolution, the State has agreed to issue the Refunding Bonds to the extent necessary to pay the Notes and has further agreed to apply highway revenues as defined in the Act available for such purposes in the event payment is not otherwise provided. In the Bond Resolution, the State has agreed to levy taxes to provide highway revenues sufficient to pay the principal of and interest on the Bonds, including the Refunding Bonds. The State is not obligated, however, to levy taxes to provide highway revenues sufficient to pay the principal of and interest on the Notes.

The \$39,075,000 Highway Revenue Bond Anticipation Notes issued September 1, 1983, bear interest at the rate of 7% and are due March 1, 1986. Annual payments range from \$1,182,300 to \$34,962,300.

17. Transfers

The Highway Earmarked Revenue Fund is used by other state agencies. At fiscal-year end the net total of cash used (transfers out) or received (transfers in) by these agencies is reflected in the fund.

Transfers out - 13,515,913

Transfers in - 49,694,600

Account Name	FIDUCIARY FUND TYPES				ACCOUNT GROUPS	
	TRUST AND AGENCY FUNDS					
	Total	Woodville Highway	Gross Vehicle Weight	Total	General Fixed Assets	General Long-Term Debt
<u>ASSETS</u>						
Cash	\$31,762	\$ 4,246	\$1,102,497	\$1,106,743		
Accounts Receivable (Note 9)	2,826		393,412	393,412		
Interest Receivable on Investments		7,720		7,720		
Allowance for Doubtful Accounts	(20,000)					
Inter-Entity Loan Receivable	19,625					
Investments (Note 16)		986,541		986,541		
Prepayments	274 1,180					
Amount Available in Sinking Fund						
Department of Highways						\$13,179,677
Department of Administration						693,240
Amount to be Provided to Retire Long-Term Debt						55,802,083
Inventories (Note 1H)						
Land (Note 4)	34,649				\$ 1,159,335	
Building (Note 4)					24,191,964	
Equipment (Note 4)	70,782				5,088,870	
Accumulated Depreciation	(21,348)					
Construction Work in Progress (Note 4)	94,756				324,355	
Total Assets	\$54,493,19,278	\$998,507	\$1,495,909	\$2,494,416	\$30,764,524	\$69,675,000
<u>LIABILITIES AND FUND EQUITY</u>						
<u>LIABILITIES:</u>						
Accounts Payable	\$ 1,008	\$ 328	\$ 392,168	\$ 392,496		
Inter-Entity Loans Payable	32,613					
Accountability for Advances						
Accrued Liabilities	9,670		1,103,741	1,103,741		
Bonds Payable						
General Obligation Highway Bonds (Note 2)						\$ 5,675,000
Highway Revenue Bonds (Note 2)						64,000,000
Unaccumulated Bond Discounts						
Deferred Revenue	208					
Total Liabilities	\$10,888,52,208	\$ 328	\$1,495,909	\$1,496,237	\$ 0	\$69,675,000
<u>FUND EQUITY:</u>						
Fund Balance	\$40,150,	\$998,179		\$ 998,179		
Retained Earnings	173,278					
Reserve for Inventory						
Investment in General Fixed Assets					\$30,764,524	
Reserve for Encumbrances (Note 14)	3,454,					
Transfers From Other Entities	393,792					
Total Fund Equity	\$43,604,867,070	\$998,179	\$ 0	\$ 998,179	\$30,764,524	\$ 0
Total Liabilities & Fund Equity	\$54,493,19,278	\$998,507	\$1,495,909	\$2,494,416	\$30,764,524	\$69,675,000

The Notes to the Financial Statements are an integral part of

MONTANA DEPARTMENT OF HIGHWAYS
COMBINING BALANCE SHEET - ALL FUNDS AND ACCOUNT GROUPS
JUNE 30, 1983

Account Name	GOVERNMENTAL FUND TYPES								PROPRIETARY FUND TYPES				FIDUCIARY FUND TYPES			ACCOUNT GROUPS		
	SPECIAL REVENUE FUNDS								INTERNAL SERVICE FUNDS				TRUST AND AGENCY FUNDS			General		
	Earmarked Revenue	Coal Area Earmarked	Highway Recon-struction	Federal & Private Revenue	Outdoor Sign Control	Bond Proceeds	Stores Inventory	Total	Bond Debt Service	Motor Pool	Highway	Equipment Bureau	Total	Woodville Highway	Gross Vehicle Weight	Total	General Fixed Assets	General Long-Term Debt
ASSETS																		
Cash	\$31,762,380	\$3,738,849	\$1,340,460	\$ 1,110,206	\$3,713	\$ 62	\$ 131,837	\$ 38,087,507	\$ 1,149	\$ 344,038	\$ 506,485	\$ 71,347	\$ 921,870	\$ 4,246	\$1,102,497	\$1,106,743		
Accounts Receivable (Note 9)	2,826,687			21,863,229			2,979,916	27,669,832		135,867	308,814	992,708	1,437,389		393,412	393,412		
Interest Receivable on Investments														7,720		7,720		
Allowance for Doubtful Accounts	(363)						(55,000)	(55,363)		(10,000)		(10,000)	(20,000)					
Inter-Entity Loan Receivable	19,629,864							19,629,864										
Investments (Note 16)						50,237,826		50,237,826	13,312,480					986,541		986,541		
Prepayments	274,715			158				274,873			1,088	92	1,160					
Amount Available in Sinking Fund																		
Department of Highways																		\$13,179,677
Department of Administration																		692,240
Amount to be Provided to Retire																		
Long-Term Debt																		55,802,083
Inventories (Note 1M)							14,297,701	14,297,701										
Land (Note 4)										234,649			234,649				\$ 1,159,335	
Building (Note 4)																	24,191,964	
Equipment (Note 4)										1,267,755	1,825,486	29,677,341	32,770,782				5,088,870	
Accumulated Depreciation										(696,304)	(1,158,442)	(13,066,602)	(14,921,348)					
Construction Work in Progress (Note 4)												294,756	294,756				324,355	
Total Assets	\$54,493,283	\$3,738,849	\$1,340,460	\$22,973,593	\$3,713	\$50,237,888	\$17,354,454	\$150,142,240	\$13,313,629	\$1,276,005	\$1,483,631	\$17,959,642	\$20,719,278	\$998,507	\$1,495,909	\$2,494,416	\$30,764,524	\$69,675,000
LIABILITIES AND FUND EQUITY																		
LIABILITIES:																		
Accounts Payable	\$ 1,008,450	\$ 66,692	\$ 13,757	\$ 1,179,445		\$ 190,000	\$ 737,294	\$ 3,195,638		\$ 61,971	\$ 10,928	\$ 157,679	\$ 230,578	\$ 328	\$ 392,168	\$ 392,496		
Inter-Entity Loans Payable				15,097,251			3,700,000	18,797,251		32,613	500,000	300,000	832,613					
Accountability for Advances				1,240,054				1,240,054										
Accrued Liabilities	9,670,993	27,388	137,176	5,456,643	\$3,713		693,048	15,989,161	\$ 394,566	78,663	168,508	541,846	789,017		1,103,741	1,103,741		
Bonds Payable																		
General Obligation Highway Bonds (Note 2)																		\$ 5,675,000
Highway Revenue Bonds (Note 2)																		64,000,000
Unaccumulated Bond Discounts						\$ 117,746		117,746	133,952									
Deferred Revenue	708,917						361,669	570,586										
Total Liabilities	\$10,888,360	\$ 94,080	\$ 150,933	\$22,973,593	\$3,713	\$ 307,746	\$ 5,492,011	\$ 39,910,436	\$ 528,518	\$ 173,247	\$ 679,436	\$ 999,525	\$ 1,852,708	\$ 328	\$1,495,909	\$1,496,237	\$ 0	\$69,675,000
FUND EQUITY:																		
Fund Balance	\$40,150,112	\$3,644,769	\$1,189,527			\$49,930,142	\$12,435,258	\$ 92,479,292	\$12,785,111	\$1,102,708	\$ 765,501	\$15,605,069	\$17,473,278	\$998,179		\$ 998,179		
Retained Earnings																		
Reserve for Inventory							14,297,701	14,297,701										
Investment in General Fixed Assets																	\$30,764,524	
Reserve for Encumbrances (Note 14)	3,454,811							3,454,811										
Transfers From Other Entities										50	38,694	1,355,048	1,393,792					
Total Fund Equity	\$43,604,923	\$3,644,769	\$1,189,527	\$ 0	\$ 0	\$49,930,142	\$11,862,443	\$110,231,804	\$12,785,111	\$1,102,758	\$ 804,195	\$16,960,117	\$18,867,070	\$998,179	\$ 0	\$ 998,179	\$30,764,524	\$ 0
Total Liabilities & Fund Equity	\$54,493,283	\$3,738,849	\$1,340,460	\$22,973,593	\$3,713	\$50,237,888	\$17,354,454	\$150,142,240	\$13,313,629	\$1,276,005	\$1,483,631	\$17,959,642	\$20,719,278	\$998,507	\$1,495,909	\$2,494,416	\$30,764,524	\$69,675,000

The Notes to the Financial Statements are an integral part of this statement.

/ FIDUCIARY
/ FUND TYPE
/ EXPENDABLE
/ TRUST

Woodville
Highway

REVENUES

Taxes	
Licenses and Permits	
Sale of Documents, Merchandise & Property	
Rental Leases & Royalties	
Miscellaneous	
Service Fees	
Federal Assistance (Note 8)	
Administrative Fees	
Investment Earnings	\$ 81,945
Total Revenues	<u>\$ 81,945</u>

EXPENDITURES

General Operations	
Construction	
Maintenance	
Preconstruction	
Capital Outlay	
Stores Inventory	
Total Expenditures	<u>\$ 812,604</u>

Excess of Revenues Over (Under) Expenditures	<u>\$ (730,659)</u>
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OTHER FINANCING SOURCES (USES)

Prior Year Revenue	\$ 18,828
Prior Year Expenditure	
Support From (To) General Fund	
Transfers Out (Note 17)	
Transfers Out-Equipment Bureau	
Cash Transfers In (Note 17)	
Merchandise Inventory	
Bond Proceeds (Note 2)	
Total Other Financing Sources (Uses)	<u>\$ 18,828</u>

Excess of Revenues Over (Under) Expenditures & Other Sources (Uses)	<u>\$ (711,831)</u>
--	---------------------

Fund Balance July 1, 1982	\$ 0
Adjustment (Note 15)	<u>1,710,010</u>
Fund Balance July 1, 1982	<u>\$1,710,010</u>
Fund Balance June 30, 1983 (Note 14)	<u>\$ 998,179</u>

The Notes to the Financial Statement

MONTANA DEPARTMENT OF HIGHWAYS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANCES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	GOVERNMENTAL FUND TYPES							/ FIDUCIARY / FUND TYPE	
	GENERAL							DEBT	EXPENDABLE
								SERVICE FUND	TRUST
	General Fund	Earmarked Revenue	Coal Area Earmarked	Highway Re-construction	Federal & Private Revenue	Bond Proceeds	Stores Inventory	Bond Debt Service	Woodville Highway
							Total		
<u>REVENUES</u>									
Taxes		\$ 17,073,430					\$ 17,073,430		
Licenses and Permits		4,141,558					4,141,558		
Sale of Documents, Merchandise & Property		101,535			\$ 60,962		162,497		
Rental Leases & Royalties		43,034			46,138		89,172		
Miscellaneous		167,421	\$ 114,180		246,951		\$ 511,420	1,039,972	
Service Fees		32,754					9,897,909	9,930,663	
Federal Assistance (Note 8)		6,925,816			84,442,826			91,368,642	
Administrative Fees		70,339						70,339	
Investment Earnings									\$ 81,945
Total Revenues	\$ 0	\$ 28,555,887	\$ 114,180	\$ 0	\$ 84,796,877	\$ 0	\$ 10,409,329	\$ 123,876,273	\$ 81,945
<u>EXPENDITURES</u>									
General Operations		\$ 7,487,092			\$ 1,296,205	\$ 1,285,000	\$ 10,068,297		
Construction		23,155,572	\$ 4,558,432	\$ 1,905,494	76,027,249		105,646,747		
Maintenance		35,773,685					\$ 595,096	36,368,781	
Preconstruction		3,787,501			7,074,930			10,862,431	
Capital Outlay		571,153						571,153	
Stores Inventory							11,318,875	11,318,875	
Total Expenditures	\$ 0	\$ 70,775,003	\$ 4,558,432	\$ 1,905,494	\$ 84,398,384	\$ 1,285,000	\$ 11,913,971	\$ 174,836,284	\$ 812,604
Excess of Revenues Over (Under) Expenditures	\$ 0	\$ (42,219,116)	\$ (4,444,252)	\$ (1,905,494)	\$ 398,493	\$ (1,285,000)	\$ (1,504,642)	\$ (50,960,011)	\$ (730,659)
<u>OTHER FINANCING SOURCES (USES)</u>									
Prior Year Revenue		\$ 35,134	\$ (277,926)		\$ 927,430		\$ 42,405	\$ 727,043	\$ 18,828
Prior Year Expenditure		(176,975)	(499,320)	\$ (366,116)	(1,325,923)		(26,333)	(2,394,667)	
Support From (To) General Fund	\$ 2,000,000								
Transfers Out (Note 17)	(2,000,000)	(13,515,913)						(13,515,913)	
Transfers Out-Equipment Bureau		(1,340,962)						(1,340,962)	
Cash Transfers In (Note 17)		47,694,600		2,000,000				49,694,600	
Merchandise Inventory							1,748,866	1,748,866	
Bond Proceeds (Note 2)						\$ 51,215,142		51,215,142	
Total Other Financing Sources (Uses)	\$ 0	\$ 32,695,884	\$ (777,246)	\$ 1,633,884	\$ (398,493)	\$ 51,215,142	\$ 1,764,938	\$ 86,134,109	\$ 12,785,111
Excess of Revenues Over (Under) Expenditures & Other Sources (Uses)	\$ 0	\$ (9,523,232)	\$ (5,221,498)	\$ (271,610)	\$ 0	\$ 49,930,142	\$ 260,296	\$ 35,174,098	\$ (711,831)
Fund Balance July 1, 1982	\$ 0	\$ 53,128,155	\$ 8,866,267	\$ 1,461,137	\$ 0	\$ 0	\$ 0	\$ 63,455,559	\$ 0
Adjustment (Note 15)							11,602,147	11,602,147	1,710,010
Fund Balance July 1, 1982	\$ 0	\$ 53,128,155	\$ 8,866,267	\$ 1,461,137	\$ 0	\$ 0	\$ 11,602,147	\$ 75,057,706	\$ 1,710,010
Fund Balance June 30, 1983 (Note 14)	\$ 0	\$ 43,604,923	\$ 3,644,769	\$ 1,189,527	\$ 0	\$ 49,930,142	\$ 11,862,443	\$ 110,231,804	\$ 998,179

The Notes to the Financial Statement are an integral part of this statement.

	GENERAL FUND		Stores Inventory			Totals		
	General Fund		/			/		
	Budget	Actual	Variance- Favorable (Unfavorable)	Budget	Actual	Variance- Favorable (Unfavorable)	Budget	Actual
Revenues								
Taxes							\$ 15,915,404	\$ 17,073,430
Licenses & Permits							4,959,995	4,141,558
Sale of Documents, Merchandise & Property							449,200	162,497
Rental Lease & Royalties							130,000	89,172
Miscellaneous				\$ 1,000,000	\$ 511,420	\$ (488,580)	1,520,001	1,039,972
Service Fees				14,518,052	9,897,909	(4,620,143)	14,553,052	9,930,663
Federal Assistance (Note 8)							71,536,669	91,368,642
Administrative Fees				54,500	0	(54,500)	64,700	70,339
Total Revenues	\$ 0	\$ 0		\$ 15,572,552	\$ 10,409,329	\$ (5,163,223)	\$ 109,129,021	\$ 123,876,273
Expenditures								
General Operations			5,000)				\$ 8,810,752	\$ 8,872,759
Construction							126,361,994	105,922,912
Maintenance				\$ 1,000,000	\$ 595,096	\$ 404,904	40,860,398	38,652,448
Preconstruction							13,381,236	10,876,364
Highway Service Revolving							60,147	0
Capital Outlay							571,153	571,153
Stores Inventory				14,518,052	11,318,875	3,199,177	14,518,052	11,318,875
Total Expenditures	\$ 0	\$ 0	5,000)	\$ 15,518,052	\$ 11,913,971	\$ 3,604,081	\$ 204,563,732	\$ 176,214,511
Excess of Revenues Under (Over) Expenditures	\$ 0	\$ 0	5,000)	\$ 54,500	\$ (1,504,642)	\$ (1,559,142)	\$ (95,434,711)	\$ (52,338,238)
Other Financing Sources (Uses)								
Prior Year Revenue				\$ 42,405	\$ 42,405	\$ 0	\$ 727,043	\$ 727,043
Prior Year Expenditure				(26,333)	(26,333)	0	(2,394,667)	(2,394,667)
Support From (To) General Fund	\$ 2,000,000	\$ 2,000,000						
Transfers Out (Note 17)	(2,000,000)	(2,000,000)					(13,515,913)	(13,515,913)
Transfers Out (Equipment Bureau)							(2,513,700)	(2,179,210)
Cash Transfers In (Note 17)							49,694,600	49,694,600
Merchandise Inventory				1,748,866	1,748,866	0	1,748,866	1,748,866
Bonds Proceeds			1,142				50,120,000	51,215,142
Total Other Financing Sources (Uses)	\$ 0	\$ 0	1,142	\$ 1,764,938	\$ 1,764,938	\$ 0	\$ 83,866,229	\$ 85,295,861
Excess of Revenues Over (Under) Expenditures & Other Sources (Uses)			1,858)	\$ 1,819,438	\$ 260,296	\$ (1,559,142)	\$ (11,568,482)	\$ 32,957,623
Fund Balance July 1, 1982 (Note 15)				\$ 0	\$ 0	\$ 0	\$ 62,217,223	\$ 62,217,223
Adjustment (Note 15)				11,602,147	11,602,147	0	11,602,147	11,602,147
Fund Balance July 1, 1982				\$ 11,602,147	\$ 11,602,147	\$ 0	73,819,370	73,819,370
Fund Balance June 30, 1983 (Note 14)	\$ 0	\$ 0	858)	\$ 13,421,585	\$ 11,862,443	\$ (1,559,142)	\$ 62,250,888	\$ 106,776,993

The notes to the Financial Statements are an integral part of this statement.

MONTANA DEPARTMENT OF HIGHWAYS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	GENERAL FUND			Earmarked Revenue			Coal Area Earmarked			SPECIAL REVENUE FUNDS Highway Reconstruction			Federal and Private Revenue			Bond Proceeds			Stores Inventory			Totals			
	General Fund		Variance- Favorable (Unfavorable)	Earmarked Revenue		Variance- Favorable (Unfavorable)	Coal Area Earmarked		Variance- Favorable (Unfavorable)	Highway Reconstruction		Variance- Favorable (Unfavorable)	Federal and Private Revenue		Variance- Favorable (Unfavorable)	Bond Proceeds		Variance- Favorable (Unfavorable)	Stores Inventory		Variance- Favorable (Unfavorable)	Totals		Variance- Favorable (Unfavorable)	
	Budget	Actual		Budget	Actual		Budget	Actual		Budget	Actual		Budget	Actual		Budget	Actual		Budget	Actual		Budget	Actual		Budget
Revenues																									
Taxes				\$ 15,915,404	\$ 17,073,430	\$ 1,158,026																\$ 15,915,404	\$ 17,073,430	\$ 1,158,026	
Licenses & Permits				4,959,995	4,141,558	(818,437)																4,959,995	4,141,558	(818,437)	
Sale of Documents, Merchandise & Property				215,200	101,535	(113,665)							\$ 234,000	\$ 60,962	\$ (173,038)								215,200	101,535	(113,665)
Rental Lease & Royalties				90,000	43,034	(46,966)							40,000	46,138	6,138								90,000	43,034	(46,966)
Miscellaneous				300,000	167,421	(132,579)	\$ 1	\$ 114,180	\$ 114,179				220,000	246,951	26,951							\$ 1,000,000	\$ 511,470	\$ (488,530)	
Service Fees				35,000	32,754	(2,246)																			
Federal Assistance (Note B)				6,416,669	6,925,816	509,147							65,120,000	84,442,826	19,322,826							14,518,052	9,892,404	(4,625,648)	
Administrative Fees				9,200	70,339	61,139							1,000	0	(1,000)							54,500	0	(54,500)	
Total Revenues	\$ 0	\$ 0	\$ 0	\$ 27,941,468	\$ 28,555,887	\$ 614,419	\$ 1	\$ 114,180	\$ 114,179	\$ 0	\$ 0	\$ 0	\$ 65,615,000	\$ 84,796,877	\$ 19,181,877	\$ 0	\$ 0	\$ 0	\$ 15,537,552	\$ 10,405,219	\$ (5,132,333)	\$ 10,405,219	\$ 15,537,552	\$ (5,132,333)	
Expenditures																									
General Operations				\$ 6,965,313	\$ 6,291,554	\$ 673,759							\$ 1,845,439	\$ 1,296,205	\$ 549,234	\$ 0	\$ 1,285,000	\$ (11,285,000)					\$ 6,965,313	\$ 6,291,554	\$ 673,759
Construction				22,295,911	23,431,737	(1,135,826)	\$ 4,754,579	\$ 4,558,432	\$ 196,147	\$ 2,000,000	\$ 1,905,494	\$ 94,506	97,311,504	76,027,249	21,284,255										
Maintenance				39,860,398	38,057,352	1,803,046																\$ 1,000,000	\$ 595,046	\$ 404,954	
Preconstruction				4,683,433	3,801,434	881,999							8,697,803	7,074,930	1,622,873										
Highway Service Evolving				60,147	0	60,147																			
Capital Outlay				571,153	571,153	0																			
Stores Inventory																									
Total Expenditures	\$ 0	\$ 0	\$ 0	\$ 74,436,355	\$ 72,153,230	\$ 2,283,125	\$ 4,754,579	\$ 4,558,432	\$ 196,147	\$ 2,000,000	\$ 1,905,494	\$ 94,506	\$ 107,854,746	\$ 84,398,384	\$ 23,456,362	\$ 0	\$ 1,285,000	\$ (11,285,000)	\$ 15,518,052	\$ 11,813,371	\$ 3,704,681	\$ 10,405,219	\$ 15,537,552	\$ (5,132,333)	
Excess of Revenues Under (Over) Expenditures	\$ 0	\$ 0	\$ 0	\$ (46,494,887)	\$ (43,597,343)	\$ 2,897,544	\$ (4,754,579)	\$ (4,044,232)	\$ 310,326	\$ (2,000,000)	\$ (1,905,494)	\$ 94,506	\$ (42,238,146)	\$ (39,493)	\$ 4,238,239	\$ 0	\$ (1,285,000)	\$ (11,285,000)	\$ (54,500)	\$ (11,504,442)	\$ (11,559,162)	\$ (95,434,711)	\$ (10,318,238)	\$ (43,496,473)	
Other Financing Sources (Uses)																									
Prior Year Revenue				\$ 35,134	\$ 35,134	\$ 0	\$ (277,926)	\$ (277,926)	\$ 0				\$ 927,430	\$ 927,430	\$ 0							\$ 42,405	\$ 42,405	\$ 0	
Prior Year Expenditure				(176,975)	(176,975)	0	(499,320)	(499,320)	0	\$ (366,116)	\$ (366,116)	\$ 0	(1,325,923)	(1,325,923)	0							(26,333)	(26,333)	0	
Support From (To) General Fund	\$ 2,000,000	\$ 2,000,000	\$ 0																						
Transfers Out (Note 17)	(2,000,000)	(2,000,000)	0	(13,515,913)	(13,515,913)	0							(700)	0	700										
Transfers Out (Equipment Bureau)				(2,513,000)	(2,179,210)	333,790																			
Cash Transfers In (Note 17)				47,694,600	47,694,600	0				2,000,000	2,000,000	0													
Merchandise Inventory																									
Bond Proceeds																									
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ 0	\$ 31,523,846	\$ 31,857,636	\$ 333,790	\$ (777,246)	\$ (777,246)	\$ 0	\$ 1,633,884	\$ 1,633,884	\$ 0	\$ (399,193)	\$ (398,493)	\$ 700	\$ 50,120,000	\$ 51,215,142	\$ 1,095,142	\$ 1,748,866	\$ 1,748,866	\$ 0	\$ 83,866,229	\$ 85,295,861	\$ 1,429,632	
Excess of Revenues Over (Under) Expenditures & Other Sources (Uses)				\$ (14,971,041)	\$ (11,239,707)	\$ 3,731,334	\$ (5,513,824)	\$ (5,271,496)	\$ 310,326	\$ (366,116)	\$ (271,610)	\$ 94,506	\$ (42,638,939)	\$ 0	\$ 42,638,939	\$ 50,120,000	\$ 49,910,142	\$ (189,858)	\$ 1,819,438	\$ 260,296	\$ (11,559,162)	\$ (11,568,482)	\$ 32,857,623		
Fund Balance July 1, 1982 (Note 15)				\$ 51,889,819	\$ 51,889,819	\$ 0	\$ 8,866,267	\$ 8,866,267	\$ 0	\$ 1,461,137	\$ 1,461,137	\$ 0										\$ 0	\$ 0	\$ 0	
Adjustment (Note 15)																									
Fund Balance July 1, 1982				\$ 51,889,819	\$ 51,889,819	\$ 0	\$ 8,866,267	\$ 8,866,267	\$ 0	\$ 1,461,137	\$ 1,461,137	\$ 0										\$ 11,602,147	\$ 11,602,147	\$ 0	
Fund Balance June 30, 1983 (Note 14)	\$ 0	\$ 0	\$ 0	\$ 36,918,778	\$ 40,150,117	\$ 3,231,339	\$ 3,334,443	\$ 3,644,269	\$ 310,326	\$ 1,095,021	\$ 1,189,527	\$ 94,506	\$ (42,638,939)	\$ 0	\$ 42,638,939	\$ 50,120,000	\$ 49,930,142	\$ (189,858)	\$ 13,421,585	\$ 11,865,443	\$ (11,559,162)	\$ 1,225,048	\$ 106,776,893	\$ 44,526,105	

The notes to the Financial Statements are an integral part of this statement.

MONTANA DEPARTMENT OF HIGHWAYS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	PROPRIETARY FUND TYPE			
		Internal Service		
	Motor Pool Revolving	Highway Revolving	Equipment Bureau Revolving	Total
<u>OPERATING REVENUE</u>				
Sale of Documents, Merchandise, Property, and Equipment			\$ 251	\$ 251
Miscellaneous Receipts	\$ 6,359	\$ 9,104	117,259	132,722
Service Fees	<u>695,001</u>	<u>2,465,901</u>	<u>8,576,607</u>	<u>11,737,509</u>
Total Operating Revenues	<u>\$ 701,360</u>	<u>\$2,475,005</u>	<u>\$ 8,694,117</u>	<u>\$11,870,482</u>
<u>OPERATING EXPENSES</u>				
Salaries and Benefits	\$ 140,715	\$1,617,439	\$ 3,081,945	\$ 4,840,099
Operating Expenses	255,005	851,288	4,433,017	5,539,310
Depreciation	214,078	99,028	1,543,008	1,856,114
Loss on Sale of Equipment	314	12,716	3,735	16,765
Bad Debt Expense	<u> </u>	<u> </u>	<u>295</u>	<u>295</u>
Total Operating Expenses	<u>\$ 610,112</u>	<u>\$2,580,471</u>	<u>\$ 9,062,000</u>	<u>\$12,252,583</u>
Operating Income (Loss)	<u>\$ 91,248</u>	<u>\$ (105,466)</u>	<u>\$ (367,883)</u>	<u>\$ (382,101)</u>
<u>NON-OPERATING REVENUES (EXPENDITURES)</u>				
Prior Year Revenue	\$ (14,449)	\$ (36,775)	\$ 7,321	\$ (43,903)
Prior Year Expense	<u>12,529</u>	<u>35,740</u>	<u>(1,088,622)</u>	<u>(1,040,353)</u>
Total Non-Operating Revenue (Expenditures)	<u>\$ (1,920)</u>	<u>\$ (1,035)</u>	<u>\$ (1,081,301)</u>	<u>\$ (1,084,256)</u>
Net Income (Loss)	<u>\$ 89,328</u>	<u>\$ (106,501)</u>	<u>\$ (1,449,184)</u>	<u>\$ (1,466,357)</u>
Retained Earnings July 1, 1982	1,013,380	872,002	17,321,204	\$30,808,733
Adjustment (Note 15)				<u>(11,602,147)</u>
Retained Earnings July 1, 1982				\$19,206,586
Transfers from Other Agencies	50	38,694	1,355,048	1,393,792
Cash Transfer Out	<u> </u>	<u> </u>	<u>(266,951)</u>	<u>(266,951)</u>
Retained Earnings June 30, 1983	<u>\$1,102,758</u>	<u>\$ 804,195</u>	<u>\$16,960,117</u>	<u>\$18,867,070</u>

The notes to the Financial Statements are an integral part of this statement.

MONTANA DEPARTMENT OF HIGHWAYS
COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION
ALL PROPRIETARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	<u>PROPRIETARY FUND TYPE</u>			<u>Total</u>
	<u>Motor</u>	<u>Internal Service</u>	<u>Equipment</u>	
	<u>Pool</u>	<u>Highway</u>	<u>Bureau</u>	
	<u>Revolving</u>	<u>Revolving</u>	<u>Revolving</u>	
<u>SOURCES OF WORKING CAPITAL</u>				
Operations:				
Net Income (Loss)	\$ 89,328	\$ (106,501)	\$(1,449,184)	\$(1,466,357)
Items Not Requiring (Providing)				
Working Capital:				
Depreciation	214,078	99,028	1,543,008	\$ 1,856,114
Loss on Sale of Equipment	314		3,735	4,049
Gain on Sale of Equipment		(68)	(6,679)	(6,747)
Bad Debt			295	295
Equipment			14	14
Total Sources of Working Capital	<u>\$303,720</u>	<u>\$ (7,541)</u>	<u>\$ 91,189</u>	<u>\$ 387,368</u>
<u>USES OF WORKING CAPITAL</u>				
Land Purchase	\$ (7,028)			\$ (7,028)
Equipment Purchases - Net	(75,869)	\$ (96,339)	\$(1,787,230)	(1,959,438)
Transfer to Other Entities			(266,951)	(266,951)
Total Uses of Working Capital	<u>\$(82,897)</u>	<u>\$ (96,339)</u>	<u>\$(2,054,181)</u>	<u>\$(2,233,417)</u>
Net Increase (Decrease) in				
Working Capital	<u>\$220,823</u>	<u>\$(103,880)</u>	<u>\$(1,962,992)</u>	<u>\$(1,846,049)</u>
<u>ELEMENTS OF NET INCREASE (DECREASE)</u>				
<u>IN WORKING CAPITAL</u>				
Cash	\$174,604	\$(181,152)	\$(1,768,057)	\$(1,774,605)
Accounts Receivable	4,263	98,898	227,262	330,423
Accounts Payable	(12,913)	(21,101)	(122,218)	(156,232)
Loans Payable	54,869		(300,000)	(245,131)
Expense Advances		(525)		(525)
Other Prepayments			21	21
Net Increase (Decrease) in				
Working Capital	<u>\$220,823</u>	<u>\$(103,880)</u>	<u>\$(1,962,992)</u>	<u>\$(1,846,049)</u>

The notes to the Financial Statements are an integral part of this statement.

AGENCY REPLY

DEPARTMENT OF HIGHWAYS



TED SCHWINDEN GOVERNOR

2701 PROSPECT

STATE OF MONTANA

HELENA MONTANA 59620

February 3, 1984

Robert R. Ringwood
Legislative Auditor
Room 135
State Capitol
Helena, MT 59620

RECEIVED

FEB 6 1984

MONTANA LEGISLATIVE AUDITOR

Dear Mr. Ringwood:

I am transmitting the Department of Highways' response to the audit report performed by your office of this Department for the fiscal year ended June 30, 1983.

Thank you for your staff's effort and cooperation during the audit period.

If you have any questions concerning our response, please call me at 444-6201.

Sincerely,

A handwritten signature in dark ink, appearing to read "Gary J. Wicks".
Gary J. Wicks
Director of Highways

GJW:nr:5/q
Attachment

Recommendation #1

We recommend the department seek changes at the federal level to eliminate the necessity for the state to advance cash to federal programs.

Response

We concur with this recommendation. The Department of Highways has brought this situation to the attention of the U.S. Department of Transportation through the Federal Highway Administration (FHWA) and the American Association of State Highway Transportation Officials (AASHTO) at every possible opportunity. FHWA maintains the position that this program is statutorily a reimbursement program and does not intend to change the current procedure.

As the auditors note, the department has reduced the lag between reimbursements to a minimum possible time and this will remain a high priority. While we will continue to work with the Department of Transportation and other federal officials to attempt to solve this problem, it is important to note that the FHWA believes that they cannot legally do what is being recommended and there is very little intent in other states in pressing for a change of present law. Continued pursual of this point is not very likely to have any positive impact.

Recommendation #2

We recommend the Department establish and repay inter-entity loans in accordance with state law.

Response

We concur with this recommendation. The auditors state that these inter-entity loans were not approved by the Department of Administration. The Department of Highways had informed the Department of Administration of the loans by the effective date of Section 17-2-107 MCA. We had not submitted the required repayment schedules at that date and have subsequently done so and received approval from the Department of Administration. The department may require legislative approval for a permanent equity transfer for the Stores Program; however, the loans during this biennium are in accordance with state law. The department will also change its accounting procedures during the SBAS conversion project to eliminate the need for the \$15.1 million loan to the Federal and Private Revenue Account for federal reimbursements. We will record all expenditures as a state expense in State Special Revenue Account and transfer the cost to the Federal Special Revenue Account when reimbursed. While this will eliminate the loan problem, it will not eliminate the need for the state to prepay the costs of the federal highway program.

Recommendation #3

We recommend the department develop a policy to identify obsolete or slow moving inventory.

Response

We concur with this recommendation. The department has drafted a policy for this process which will provide specific instructions for disposing of this inventory. The policy will be finalized, implemented and placed in the Accounting Manual by April 1, 1984, prior to the annual inventory.

Recommendation #4

We recommend the department develop maximum and minimum inventory control levels.

Response

We concur with this recommendation. The department is currently upgrading the Stores Inventory Management System and this feature will be included.

Recommendation #5

We recommend the department:

- A. Follow its established inventory count procedures.
- B. Consider performing the task on a rotating basis throughout the year.
- C. Establish adequate physical controls over inventory stock on hand.

Response

- A. We concur with this recommendation. The auditors note that the department has adequate inventory count procedures, but the department has not always followed these procedures. We have emphasized this procedure over the past several years and have improved every year. This year we will hire temporary employees in each division for the sole purpose of taking inventory. We did this in one division for the last count and had a much better result. These teams will come to Helena for a training course prior to field counts. We also will continue to emphasize preparation for the inventory such as arranging and tagging stock. The obsolete inventory procedure should have a significant impact on the inventory by reducing inventory prior to the count.
- B. We concur with this recommendation. We are currently reprogramming the Stores Inventory Management System for these features.
- C. We concur with this recommendation. We have emphasized these procedures for the past several years and the situation is consistently improving. We will continue to place a priority on inventory security. The recent reorganization of the field offices has resulted in better access to computer terminals and this is no longer a problem.

Recommendation #6

We recommend the department properly record bond sale proceeds.

Response

We concur with this recommendation. The department did not record the bond proceeds as the auditors recommend because the State of Montana does not have a policy on recording bond issues. We have subsequently met with personnel from the Department of Administration and the Office of the Legislative Auditor and have agreed on such accounting entries. The department has made the recommended entries into the state accounting system.

Recommendation #7

We recommend the department:

- A. Report all costs in the internal service fund in accordance with state accounting policy.
- B. Study the feasibility of reclassifying the Equipment Bureau as a Special Revenue Fund.

Response

- A. We do not concur with this recommendation. While recognizing the auditor's position on recording these costs for accounting purposes, this would be a complex process to implement with little or no benefit other than complying with a state policy which does not specifically require recording this expense. The department would be required to record costs for every area benefiting the Equipment Bureau such as the accounting costs, insurance, personnel, director, etc. to completely comply with this concept. If the department implements the following recommendation this recommendation would be eliminated.
- B. We concur with this recommendation. We will review this recommendation prior to the next legislative session and present such a change in the next budget request. We implemented a similar change for the Stores Program in the last legislative session with legislative approval.

Recommendation #8

We recommend the department properly record earned investment income at fiscal year-end.

Response

We concur with this recommendation.

Recommendation #9

We recommend the department establish and implement procedures to ensure errors in the Accounts Receivable records are detected and balances are properly reflected.

Response

We concur with this recommendation. The department converted the accounts receivable function to the Statewide Budgeting and Accounting System (SBAS) during fiscal year 1983. The types of errors the auditors detected resulted primarily from the method

used in the old system which required manual entries resulting in many transposition errors. The new system will be keypunched and all receipts and disbursements will be made from the same document and verified at input. We also instituted a monthly reconciliation during fiscal year 1983 to detect any errors within the same month. It is also reviewed by another section. This will result in decreasing the errors to an acceptable rate and they will be detected much sooner in the process.

WGS:ml:5ff

